

2 Unit

The Marketing Environment

After learning this unit, you will be able to answer the following questions.



Warm-up Activities

In what way do you think the following pictures may affect our life or business? Suppose you want to set up your own business, which of them may affect your decision? Why?



(1)



(2)



(3)



(4)

(All pictures are from <http://image.baidu.com/>)

Reading 1

The Marketing Environment (I)—Microenvironment

Definition

Everything happens or operates in a certain environment. As an environment generally refers to the external situations and conditions of a matter, the **marketing environment** refers to all outside factors and conditions related to the marketing activities of an organization. These factors and conditions are constituted by the forces outside a company and they affect the companies' ability to maintain successful relationships with its target customers, thus they affect its global and domestic marketing efforts. While making use of the material and information resources from the environment around, a company also influences the outside world by putting out products, labor and information, and the marketing activities can facilitate the interactions of the companies' internal and external resources.

Nature of the Marketing Environment

We will first look into the distinctive features of the marketing environment.

First, the marketing environment is **objective**. Objectivity is the most outstanding feature of marketing environment. The existence and function of an environment is objective so that any organization should direct its marketing strategies according to the objective trend of the environment, otherwise its blind plan or decision will lead to inconceivable failures in the future.

Second, it is **dynamic**. Like any other type of environment, marketing environment is not a static one. Any marketing environment will change with the change of any factor involved, such as the consuming need and purchasing power of customers, the change of population or even any variation in the political policy in a place.

Third, it is **uncontrollable**. Elements of the marketing environment are largely uncontrollable, although marketers can influence marketing activities. For example, the condition of suppliers, the social culture or the legal and political situation is not controllable to an organization.

Classification of the Marketing Environment

According to the way and the degree of its influence on an organization, marketing environment falls into two major categories: the microenvironment (also known as direct environment) and the macroenvironment (also known as indirect environment). The microenvironment consists of the forces close to the company that affect its ability to serve its customers—the company, suppliers, marketing channel firms, competitors, and publics. The macroenvironment consists of the larger societal forces that affect the microenvironment—demographic, economic, natural, technological, political, and cultural forces. The relationship of macroenvironment, microenvironment and the company's marketing activities can be shown in Exhibit 2.1.

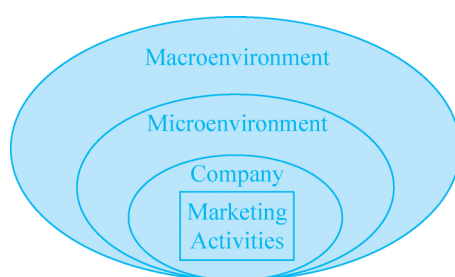


Exhibit 2.1

As both types of environment are vital to an organization, it is inadvisable for any company to ignore either of the two types. And in the following section, we will first focus on the discussion of microenvironment of an organization.

The Company's Microenvironment

The company's microenvironment is directly connected with its economic benefits

and directly influences the marketing services of the company. It consists of groups and organizations of the following six broad categories—the company itself, suppliers, marketing intermediaries, target customers, competitors and publics, which can be shown in Exhibit 2.2 as below.

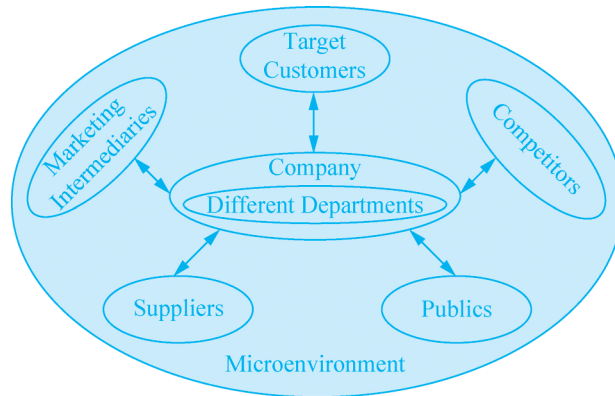


Exhibit 2.2

● The Company

To attract and build relationships with customers by creating customer value and satisfaction is the focus of marketers, but to realize this aim, marketers cannot depend on the marketing department alone. They must work together with different departments of the company.

While designing their marketing plans, marketers have to consider other departments such as the **top management**, finance, research and development (R&D), purchasing, manufacturing and accounting.

First of all, the top management sets the company's mission, the general aim, strategies and policies, and the **marketing department** will figure out specific marketing plans according to the general ones from the top. Then, the marketing department will depend on the mutual efforts of all other departments to realize their marketing aim. The **finance** is responsible for the funds needed during any project; the **R&D** should design and develop new products that are popular in the market; the **manufacturing** is focusing on the production of the products; and the **accounting** deals with the relation of cost and income so as to provide evidences for the top management to evaluate whether or not they have reached the objective set beforehand.

● Suppliers

Suppliers refer to those enterprises or individuals that supply goods or services they

manufacture or handle to the company. The influence that suppliers bear on the company can be reflected in the following aspects.

To begin with, the reliability of resource supply, i.e., the assurance for the supply of resources directly influences the sales volumes and delivery time.

Furthermore, the prices and the trend of the fluctuation of the prices are closely related to the cost of the company.

Finally, the quality of the products supplied greatly affects the quality of the company's products sold to its customers.

● Marketing Intermediaries

Like suppliers, **marketing intermediaries** form an important component of the company's over-all value delivery system. Marketing intermediaries are organizations that help the company to promote, sell, and distribute its goods to end users. They include middlemen, physical distribution firms, marketing service agencies, and financial intermediaries.

Middlemen such as wholesalers and /or retailers are those organizations or individuals that help the company to find final customers or directly deal with customers. Therefore, unless the company sets up its own marketing channels, the working efficiency and service quality will directly influence the selling conditions of the company's products.

Physical distribution firms are specialized organizations that help the company to stock and move goods from their original places to their destinations. They include warehouses and transportation firms, such as DHL, UPS, TNT, FEDEX, etc.

Marketing services agencies include marketing research firms, financing firms, advertising companies, various advertising media and marketing consultant firms, whose specialized services are indispensable to the company's marketing activities.

Financial intermediaries include banks, credit companies, insurance companies and other businesses that help finance transactions or insure against the risks associated with the buying and selling of goods. In the modern society, almost all companies are closely related to and deal with financing intermediaries. All the resources of loans, the fluctuation of the bank's interest for loans and the insurance rate of the insurance company affect the company's marketing activities.

● Target Customers

As objects of the company's services, **target customers** refer to the direct buyers and users of the company's products or services. The marketers' major aim is to effectively provide products and services to its target customers through their co-efforts with different forces in the marketing channels. The features and change of customers' needs are the focus of marketing activities. Thus, marketers need to study its customers closely.

- Competitors

No company can exist alone in a certain market, for total monopolization is seldom seen in the reality. Thus, the company's efforts in the market will encounter the influence of other similar firms who compete for the force of the same market. These firms form competitors of the company.

- Publics

Publics are any group that has an actual or potential interest in or influence on the company's ability to realize its marketing objectives. They include financing publics, media publics, government publics, community publics and internal publics. As these publics can both enhance or hinder the company's ability to achieve its marketing goals, and sometimes the attitudes of the publics will directly affect the marketing prospect of the company, thus, it is vital to appropriately deal with the publics. Nowadays, a lot of enterprises set up public departments whose function and influence will be discussed in details in Unit 12.

(Adapted from Gary Armstrong & Philip Kotler, *Marketing: An Introduction*, Prentice–Hall, Inc. 2000: 70.)



Reading 2

The Marketing Environment (II)—Macroenvironment

Macroenvironment refers to the major social forces that operate through affecting the microenvironment of the company, including demographic environment, economic environment, natural environment, technological environment, sociocultural environment and political environment, as shown in Exhibit 2.3.

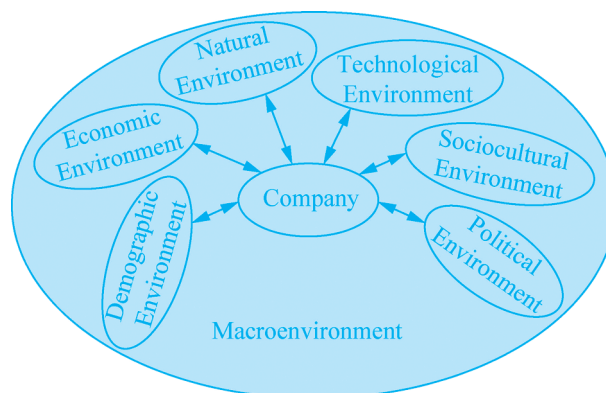


Exhibit 2.3

Through affecting different aspects of the microenvironment of the company, these social

forces can both shape opportunities and pose threats to the company's marketing activities. The following parts of the unit will focus on effects of the company's marketing plans.

● Demographic Environment

The **demographic environment** is of major interest to marketers as it involves people, and it is people who make up markets. From a quantitative aspect, the number of people is an important symbol for the scale of a market. From the qualitative aspect, such as the analysis of the distribution, structure and changing trends of the population can reveal the features and developing tendency of the marketing needs. Then what are the features of demographic environment and how do they influence the company's marketing activities?

Firstly, the world population is growing rapidly. A growing population means growing human needs to satisfy. Depending on purchasing power, it may also mean growing market opportunities. China is considered to be “the most prosperous market of the 21st century”, not only out of the rapid growth of its economy, but also due to the increasingly large population.

Secondly, the structure of the population also deserves attention. The structure of population that affects marketing plans can be analyzed from the natural structure (such as sex and age) and the social structure (such as living style, profession, nationality and family). When designing, packing and pushing the products into the market, marketers should take all these factors into consideration, so that the company can provide suitable products for different types of people. For example, exciting or adventurous activities should aim at youngsters, while medical care products should look for the old, and high-end cosmetic products should regard rich, elegant and well-educated ladies as target customers.

Lastly, the distribution of population is another aspect for attention. People in certain area may form different features of need and peculiar consuming habits, which can be proved by peculiar dishes in different areas of China.

● Economic Environment

International, national-wide and local **economic environment** are all critically significant to marketers, as people can become real consumers when they possess the necessary economic ability. With the same population force, the higher the social purchasing power, the larger the scale of marketing need. Therefore, marketers should place great importance on the trend of economic environment, especially the social purchasing power and the structure of the expenditure of the people.

First of all, they should take the **consumer purchasing power** into consideration. The income of consumers is the source for the purchasing power, including the consumers' salary, bonus, allowance, dividend, rent payment and all other styles of currency income. Usually, with the stability of commodity price, the higher income level tends to generate higher purchasing

power and in turn more opportunities for the market.

In addition, marketers should look into the **consumer spending patterns** as well, i.e., the proportion of income used for food, housing, transportation, clothing, health care, entertainment, insurance and so on. Consumers at different income levels have different spending patterns, which were noted by Ernst Engel a century ago. Ernst Engel created the famous **Engel's laws** to indicate the proportion of food in a family's income. He pointed out that the bigger the coefficient, the poorer the economic state and vice versa.

Finally, marketers should pay attention to the global economic climate. In an age when faxes, phone lines and the Internet can instantaneously carry orders and information highway around the world to a waiting supplier or customer, every marketer is influenced by the global economic environment. The case that marketers have to adjust their marketing plans because of the financial crisis sweeping over the world since 2008 is well illustrative.

● Natural Environment

Natural environment is the fundamental activity space and material resources for human beings, and the change of natural environment is closely related to human activities. For marketers, the natural environment involves the natural resources available to or affected by the organization, such as air, water, minerals, plants, and animals. While a company uses some of these resources to produce its goods or provide its services, its activities also affect the natural surrounding environment. Therefore, marketers should be well aware of the current trends related to natural resources.

The first trend involves increasing shortage of raw materials. Even though there are infinite resources like air or water, the pollution of these resources poses great threats to many places in China and the world. Renewable resources such as forests and foodstuff should also be used with abstention, since the renewing cycle may take a considerable period of time. Nonrenewable resources like oil, coal and various minerals have caused serious problems. The shortage of natural resources has become a great obstacle or even counterforce to the economic development of various economies throughout the world.

The increasing pollution of the natural environment becomes the second trend. The development of industrialization and urbanization has caused increasing pollution of the natural environment such as the exhaustion of the natural resources, the pollution of the ocean, desertification of the soil, the harmful effects of green house and the crisis of biological environment. Nowadays, people's clear awareness of serious results brought by pollution constitutes great pressure for those enterprises that still pose great threats to the environment, while those industries that help control pollution by producing environmentally friendly products will be warmly welcome by the whole populace.

Marketers should also consider the government intervention in natural resources management. Any marketing activity running against the government policy will lead to failure.

Fortunately, people throughout the world have realized the importance of environmental protection, which brings about advanced marketing ideas such as “**sustainable development**” and “**green marketing**”. These will be thoroughly discussed in Unit 16 of this book.

● Technological Environment

The **technological environment** includes factors and trends related to innovations that affect the development of new products or the marketing process. Rapid technological advances make it imperative that markets take a technological perspective. These new technological trends can provide opportunities for new-product development, affect how marketing activities are performed, or both.

Nowadays, people all over the world have clearly realized that science and technology is the first productivity and the 21st century is a new century for the further development of high technology. Therefore, marketers should seize the developing trends of technological revolution, attach great importance to the effects that the change of technological environment bears on marketing activities, and take appropriate measures accordingly.

Firstly, new technology creates new marketing opportunities and produces new industries. For example, with the development of technology in the computer science, the Internet and related industries grow quickly. Technological products can help marketers become more productive. Fax machines and mobile phones are good examples. On the other hand, new technology also poses threats to some industries. For example, laser discs have almost occupied the market of cassette tapes, and duplicating machines have taken that of carbon paper.

Secondly, enterprises benefit a lot in management with the use of new technology. New technology provides better sources and equipment and brings new ideas in the managing system of the company. Various types of devices designed for quality control are very illustrative.

Thirdly, the technological environment is characterized by rapid change. Most of today's common products that were not available 50 years ago, or even 20 years ago. For example, color TV sets just entered into Chinese households in the late 1980s, and the appearance of smart phones were in 2000.

Fourthly, the development of new technology influences the company's decisions in making marketing strategies. The new technology shortens the production period which causes the company to develop new products constantly. The advanced telecommunication technology and multi-media publicizing make the advertising industry more influential.

Finally, new technology has changed the structure of retailing and consumers' shopping habits. Information technology enables people to search for a lot of information about the

products they like through the Internet. In many countries, online shopping has become an increasingly popular shopping style.

● Sociocultural Environment

The **sociocultural environment** includes institutions and other forces that influence a society's basic values, perceptions, preferences and behaviors. The social conditions in which people grow up shape their belief systems and behaviors for the rest of their lives. Values and attitudes that a person acquired early in life are difficult or even impossible to change, and they affect his or her purchase decisions in many ways. To understand how sociocultural environment affects marketing decisions, marketers have to take into consideration the items as follows.

The core beliefs and values people hold in a given society are hard to change. For example, the Chinese Hui ethnic people do not eat pork. This belief affects their shopping habits since they do not buy anything related to pork. Moreover, core beliefs and values will pass on from parents to children and are reinforced by school, business and government. Marketers have little chance to change core beliefs and values.

In comparison, secondary beliefs and values are easier to change. For example, if some eating habits are not restricted by religious taboos but out of some experience in the past, they are easily changed, thus marketers have some chance to change such secondary values.

Furthermore, successful marketers are able to predict cultural shifts in order to find out new opportunities or threats. For example, in China, with the improvement of standard of living since the last two decades, more people shift their emphasis in life from getting enough food and clothes to physical fitness and well-being. Such information helps marketers cater to trends with appropriate products and communication appeals.

Marketers should also consider people's views towards both people (including themselves and the people around them) and things (such as organizations, nature, the society and the universe). For example, people with different views about themselves will choose products of different brands and price levels. For another instance, in the year 2008, the Chinese people have quite special views towards the Olympics, so that many marketers seized the chance and developed various kinds of products, including things for collection, clothes, food and so on. Products or services bearing the Olympic image have entered almost every corner of the Chinese people's life. People in Beijing, Qingdao and Dalian have enjoyed a great boom in the tourist industry after the 29th Olympics.

● Political Environment

Marketing decisions are strongly affected by the development in the **political environment**. The political environment consists of laws, government agencies and pressure

groups that influence and limit various organizations and individuals in a given society.

Business activities need a stable political environment. Thanks to the economic reform and opening up policy, China's economy has been enjoying strong growth driven by the favorable political and economical environment since 1978.

To begin with, the state policy and regulations for business enjoys constant improvement. With the development of marketing economy in China, the government has passed a lot of laws and regulations related to economic development. Business legislation has been enacted for the following purposes.

- To protect the legal interests of enterprises, so as to avoid unfair competition and ensure a fine marketing system.

- To protect consumers from unfair business practices. Unfair business practices have been defined and are monitored by various agencies.

- To protect the interest of the society. Regulations force companies to be responsible for the social costs of their production or products.

Moreover, associations representing public interests have gained rapid development. Nowadays, with consumers' clearer awareness of their legal rights and interests, non-governmental organizations such as consumers associations and environmental protection organizations were founded one after another. These organizations are not enforced by law or the government, but they are generally spokesmen for a certain group of people, so they are influential to some extent. For example, some organizations may guide or prevent the consuming needs of a certain group of consumers, constituting considerable pressure to marketing behaviors and marketing position of a company. In China, the most influential one of this kind is the China Consumers Association, which was established in Beijing in January of 1985. It performs social supervision on the commodity and services so as to protect the legal rights and interests of consumers.

(Adapted from Gary Armstrong & Philip Kotler, *Marketing: An Introduction*, Prentice-Hall, Inc.2000:84; William O., Bearden, et al. *Marketing: Principle & Perspective*, McGraw-Hill, 1998: 64.)



Activity 1

Case 1: Several decades ago, the United States of America once enjoyed the reputation as “the state on the automobile wheel” for its proud advanced automobile industry. But only within a short period of time, the Japanese-made petrol-saving automobiles occupied a large proportion of the American market.

Question: Please search the Internet for the features of American and Japanese automobiles respectively and then discuss the following questions in groups of 3 or 4 according to the information given in the supplementary material.

1. Why the American automobile market was largely occupied by the Japanese cars?
2. Compare the two pictures and tell which car looks younger and is more popular?



Case 2: An American company used the advertising catchword “Do what you want to!” while pushing its new products in the Japanese market, but the event led to an unfavorable result. However, after a careful study of the Japanese society, the company changed the words into “Do what you should do!” And the market improved greatly.

Question: Please search the Internet for some features of American sociocultural values and those of the Japanese, then discuss the following questions in groups.

1. Why did the company achieve quite different results just because of one different word in their slogan?
2. Are these two slogans greatly different from each other?



Activity 2

Suppose you are going to set up a company of your own, you have the following places (as shown in the picture) to choose from. Which one (ones) would you choose, and which one (ones)

would you not choose? Discuss in groups of 3 or 4 and state your reasons using the information about the different types of environment that you have learned in the readings.



Picture 1 A crowded shopping center



Picture 2 Affluent residential zones



Picture 3 A stable society



Picture 4 A war-torn society

(Pictures are from <http://www.image.baidu.com>.)

Activity 3

Translation and Discussion (2)

Translate the following story and the questions into English, and then discuss the questions in English.

为了繁荣经济，创造更多的就业机会，国家鼓励自主创业，并制定了相关的优惠政策和措施。韩柳决定到当地的相关部门了解一下，国家对于大学生创业到底有哪些具体的优惠政策。

问题

1. 你认为韩柳应该到什么部门去了解情况呢?
2. 有哪些政府鼓励创业的优惠政策呢?

Responding to the Marketing Environment

Someone once observed, “Towards the issue of marketing environment, there are three kinds of companies: those who make things happen, those who watch things happen, and those who wonder what’s happened.”

Many companies view the marketing environment as an uncontrollable element to which they must adapt. They passively accept the marketing and do not try to change it. They analyze the environmental forces and design strategies that will help the company avoid the threats and take advantage of the opportunities the environment provides.

Other companies take the **environmental management perspective**, a management perspective in which the firm takes aggressive actions to affect the publics and forces in its marketing environment rather than simply watch and react to them. Such companies hire lobbyists to influence legislation affecting their industries and stage media events to gain favorable press coverage. They run advertorials (ads expressing editorial points of view) to shape public opinion. They press lawsuits and file complaints with regulators to keep competitors in line, and they form contractual agreements to better control their distribution channels.

Often, companies can find positive ways to overcome seemingly uncontrollable environmental constraints. For example, Cathay Pacific Airlines determined that many travelers were avoiding Hong Kong because of lengthy delays at immigration. Rather than assuming that this was a problem they could not solve, Cathay’s senior staff asked the Hong Kong government how to avoid these immigration delays. After lengthy discussions, the airline agreed to make an annual grant-in-aid to the government to hire more immigration inspectors—but these reinforcements would service primarily the Cathay Pacific gates. The reduced waiting period increased customer value and thus strengthened the company’s efficiency.

Marketing management cannot always control environmental forces. In many cases, it must settle for simply watching and reacting to the environment. For example, a company would have little success trying to influence geographic population shifts, the economic environment, or major cultural values. But whenever possible, smart marketing managers will take a proactive rather than reactive approach to the marketing environment.

(Adapted from Gary Armstrong & Philip Kotler, *Marketing: An Introduction*, Prentice–Hall Inc. 2000:96.)

Questions

1. How can a real estate company respond to the aged tendency of population?
2. Energy shortage is a worldwide problem. How can a car maker react to this environment?